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Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 SCI-06 SCEM-02 AID-20 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 INT-08

NEA-10 STR-08 CEA-02 DRC-01 /213 W
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R 111844Z JAN 74
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7021
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDOC WASHDC

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DEPARTMENT FOR TREASURY AND FRB

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JANUARY 11

BEGIN SUMMARY: MAJOR DEVELOPMENTS INCLUDED CONTINUATION
OF THREE DAY WORK WEEK, HEIGHTENED INDUSTRIAL
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MILITANCY FROM MINERS AND TRAIN DRIVERS, BUT WITH SOME

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RAYS OF SUNSHINE, GROWING FEARS OF EFFECTS OF PART TIME WORK AND LACK OF ENERGY SUPPLIES ON ECONOMY, PARLIAMENTARY DEBATE ON INDUSTRIAL CRISIS, NEW LOWS FOR STERLING AND NEW HIGHS OF GOLD. PUBLISHED STATISTICS CONFIRM SLOWING DOWN OF ECONOMY IN THIRD QUARTER 1973, RAISE POSSIBILITY OF CREDIT SQUEEZE, AND INDICATE FALL IN BUSINESS CONFIDENCE AND INVESTMENT PLANS. END SUMMARY.

1. MAJOR ITEMS ON DOMESTIC ECONOMY REPORTED SEPARATELY. FOREIGN EXCHANGE MARKET SAW STERLING FALL TO NEW LOWS, AGAINST DOLLAR. IT CLOSED AT $2.2850 THURSDAY, JANUARY 3, FELL SHARPLY EARLY IN WEEK (HITTING $2.2245, A NEW LOW) THEN RECOVERED TO CLOSE AT $2.2470 ON THURSDAY, JANUARY 10. TRADE WEIGHTED DEVALUATION AGAINST SMITHSONIAN RATES WIDENED FROM 17.7 PERCENT JANUARY 3 TO ABOUT 18 PERCENT DURING WEEK UNTIL THURSDAY, WHEN IT WIDENED MORE SHARPLY TO 18.5 PERCENT, REFLECTED INCREASED WEAKNESS AGAINST CONTINENTAL CURRENCIES. GOLD, WHICH CLOSED AT $121.00 ON JANUARY 3, INCREASED TO NEW HIGH OF $130.50 ON JANUARY 8, FELL BACK AND CLOSED AT $120.00 ON JANUARY 11. DOMESTIC FACTORS MENTIONED IN SUMMARY CITED BY FOREIGN EXCHANGE MARKET AS REASONS OF STERLING WEAKNESS, GOLD'S TEMPORARY INCREASE. ALSO CITED ARE GENERAL FEARS OF WORLD-WIDE INFLATION, WHICH DEALERS CLAIM IS REFLECTED IN PRICES PAID AT RECENT ANTIQUE AUCTIONS AS INVESTORS SEEK TANGIBLE GOODS.

2. THE FINANCIAL TIMES MONTHLY SURVEY OF BUSINESS OPINION SHOWED A DOWNWARD TREND IN OUTPUT FORECASTS. EVEN BEFORE THE INTRODUCTION OF THE THREE-DAY WEEK, BUSINESS CONFIDENCE HAD REACHED ITS LOWEST LEVEL SINCE SHORTLY AFTER THE 1967 DEVALUATION. GROWTH OF INDUSTRIAL PLANT STILL GOING AHEAD, ALTHOUGH PLANS IN SOME CASES WERE BEING CUT BACK. THIS MUCH SAID, THE OUTLOOK FOR NEW ORDERS, PRODUCTION AND SALES WAS GENERALLY CONFIDENT. SHORTAGES OF MANPOWER AND MATERIALS WERE BECOMING VERY ACUTE IN THE PERIOD IMMEDIATELY PRIOR TO THE INTRODUCTION OF THE THREE-DAY WEEK. HOWEVER, THE MOUNTING PRESSURE ON PRICES HAD BEGUN TO AFFECT PROFIT MARGINS; FOR THE FIRST TIME SINCE MID-1970, THE PROPORTION OF UNCLASSIFIED

FIRMS EXPECTING PROFIT MARGINS TO CONTRACT EXCEEDED THOSE ANTICIPATING AN IMPROVEMENT.

3. DEPARTMENT OF TRADE AND INDUSTRY CUT BACK ON PROJECTIONS FOR CAPITAL EXPENDITURE IN 1974. ITS SURVEY, TAKEN BEFORE ANNOUNCEMENT OF THE THREE-DAY WORKING WEEK SUGGESTS INVESTMENT BY MANUFACTURING INDUSTRY IN 1974 WILL BE 12-14 PERCENT ABOVE 1973 LEVELS. THIS COMPARES

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WITH RESULTS OF A PREVIOUS SURVEY TAKEN LAST SUMMER WHICH
INDICATED A 15 PERCENT INCREASE IN 1974. CURRENT SURVEY
WAS TAKEN IN NOVEMBER AND FIRST TWO WEEKS OF DECEMBER.

4. STATISTICS PUBLISHED THIS WEEK CONFIRM GENERAL
SLOWING DOWN OF ECONOMY IN THIRD QUARTER, 1973. A RISE
OF 0.9 PERCENT WAS RECORDED IN OUTPUT MEASURE OF GDP.
RATE OF INCREASE OVER THIRD QUARTER 1972 WAS 5.4 PERCENT.
INCREASE IN TOTAL PERSONAL INCOME BEFORE TAX IN THIRD
QUARTER 1973 WAS 2.5 - 3.0 PERCENT. PERSONAL DISPOSABLE
INCOME (AFTER TAX) ALSO ROSE BY 2.5 - 3.0 PERCENT IN
SAME PERIOD, (ALMOST MATCHED BY PRICE INCREASES) WHILE
CONSUMER EXPENDITURE INCREASED 3 -3.5 PERCENT, LEADING
TO SLIGHT FALL IN SAVING RATIO (10.1 PERCENT, VS. 10.5

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PERCENT IN SECOND QUARTER, BUT STILL WELL ABOVE RECENT ANNUAL RATES OF ABOUT 8.5 IN 1971 AND 1972.) REAL PERSONAL DISPOSABLE INCOME SHOWED SMALL INCREASE, LESS THAN 0.5 PERCENT IN THIRD QUARTER.

5. FOR YEAR AS A WHOLE, ESTIMATED AUTO PRODUCTION WAS 1.75 MILLION CARS, DOWN 9 PERCENT FROM 1972. COMMERCIAL VEHICLE PRODUCTION (417,000 UNITS) INCREASED 2.5 PERCENT
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OVER 1972.

6. RETAIL SALES FIGURES INCREASED SLOWLY IN NOVEMBER. OFFICIAL VOLUME INDEX WAS 112.5 (1971100), UP FROM 111.9 IN OCTOBER. SEPTEMBER-NOVEMBER RETAIL SALES WERE UP 0.7 PERCENT (2.8 PERCENT AT AN ANNUAL RATE) OVER PREVIOUS 3 MONTHS AND 3.3 PERCENT ABOVE SEPTEMBER-NOVEMBER 1972 LEVEL. LATEST DATA ON INSTALMENT CREDIT INDICATES TOTAL DEBT DURING SEPTEMBER-NOVEMBER PERIOD WAS 5.3 PERCENT ABOVE PREVIOUS THREE MONTHS, 23 PERCENT ABOVE PREVIOUS YEAR. THERE HAS BEEN SOME SLOWDOWN DURING SEPTEMBER-NOVEMBER PERIOD.

7. STERLING ADVANCES BY LONDON CLEARING BANKS TO U.K. RESIDENTS INCREASED BY 264 MILLION POUNDS IN THREE WEEKS TO DECEMBER 12. INCREASES MAINLY IN MANUFACTURING INDUSTRIES (PARTICULARLY FOOD, DRINK, TOBACCO) AND FINANCIAL SECTOR. PERSONAL BORROWING DECREASED SIGNIFICANTLY. RESERVE RATIO OF FIVE LONDON CLEARING BANKS DECLINED TO 13.8 PERCENT (FROM 14.5 PERCENT IN NOVEMBER, REQUIRED LEVEL IS 12.5 PERCENT). SOME OF INCREASE IN ADVANCES DUE TO CHRISTMAS INVENTORIES, BUT FIGURES ALSO INDICATE BANKS MAY BE IN FOR TIGHT SITUATION IN MEETING NEW DEMANDS FOR CREDIT, ESPECIALLY IN LIGHT OF NEW MONETARY RESTRAINTS ANNOUNCED IN CHANCELLOR'S MINI-BUDGET AND DEMANDS FOR CASH FROM FIRMS TO HELP TIDE THEM OVER REDUCTION IN CASH FLOW AS RESULT OF THREE DAY WEEK.

8. THE FORWARD DISCOUNTS ON STERLING NARROWED.

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	1/3	1/10	CHANGE
1 MONTH	1.60	1.40	DOWN 0.20
3 MONTHS	4.40	4.10	DOWN 0.30
6 MONTHS	7.75	7.48	DOWN 0.27

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES SHOWED MIXED TRENDS.

	1/3	1/10	CHANGE
1 MONTH	14-7/8	14-3/8	DOWN 1/2
3 MONTHS	15-3/8	15-7/16	UP 1/16
6 MONTHS	15-1/2	15-7/16	DOWN 1/8

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10. EURO-DOLLAR RATES CONTINUED DOWN.

	1/3	1/10	CHANGE
1 MONTH	9-5/8	9-1/2	DOWN 1/8
3 MONTHS	10-3/16	9-5/8	DOWN 9/16
6 MONTHS	10-1/16	9-1/2	DOWN 9/16

11. THE BANK OF ENGLAND'S MINIMUM LENDING RATE (MLR) REMAINED UNCHANGED AT 12-3/4.

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